

## Message Text

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71

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INFO AMEMBASSY JAKARTA

AMEMBASSY SINGAPORE

CINCPAC

C O N F I D E N T I A L KUALA LUMPUR 5399

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: ECON PINT MY

SUBJ: SECOND MALAYSIA PLAN MID-TERM REVIEW

REF: KUALA LUMPUR A-57, APRIL 5, 1973

1. SUMMARY-INTRODUCTION: MID-TERM REVIEW OF SECOND MALAYSIA PLAN (SMP) 1971-1975, WHICH PM RAZAK PRESENTED TO PARLIAMENT NOV. 26, HIGHLIGHTED BY REALISTIC ASSESSMENT OF ECONOMIC PROSPECTS FOR NEXT 20 YEARS, GIVING DETAILED REQUIREMENTS FOR TRANSFORMING MALAYSIA FROM DEVELOPING TO INDUSTRIALIZED NATION. REVIEW EMPHASIZES ECONOMIC GROWTH AS CONDITION FOR IMPROVING RACIAL BALANCE OF ECONOMIC WEALTH AND, EQUALLY IMPORTANT, THAT HIGH GROWTH RATES REQUIRE STRONG INPUTS FROM BOTH NON-MALAY COMMUNITY AND FOREIGN INVESTORS. THIS REPRESENTS SUBTLE SHIFT OF EMPHASIS IN NEW ECONOMIC POLICY (NEP). CONTINUED HIGH RATE OF DEVELOPMENT AND GROWTH, TOGETHER WITH INTERNAL  
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POLITICAL CALM, SEEM INDICATED FOR NEXT DECADE. DETAILS OF FOLLOWING SMP REVIEW ANALYSIS AND POLITICAL CLIMATE FOLLOW IN TWO AIRGRAMS. END SUMMARY.

2. REVIEW CONCLUDES THAT MALAYSIA IS MAKING SATISFACTORY PROGRESS TOWARD MAJOR GOALS OF NEP OF (A) ERADICATING POVERTY BY RAISING INCOME AND INCREASING EMPLOYMENT FOR ALL MALAYSIANS, IRRESPECTIVE OF RACE, AFK (B) RESTRUCTURING SOCIETY TO CORRECT ECONOMIC AND RACIAL IMBALANCE, GIVING MALAYS 30 PERCENT OWNERSHIP OF PRIVATE SECTOR AND PROPORTIONATE EMPLOYMENT IN INDUSTRIAL SECTOR BY 1990. REVIEW INTERRELATES TWO OBJECTIVES OF NEP SO THAT ECONOMIC GROWTH IS SEEN AS BOTH CAUSE AND RESULT OF RESTRUCTURING.

3. GROWTH AVERAGING 7.1 PERCENT PER ANNUM AND 12.3 PERCENT IN INDUSTRIAL SECTOR ANNUALLY WITH SOME M\$ 8 BILLION IN FOREIGN CAPITAL REQUIRED TILL 1990 TO ACHIEVE GOALS OF NEP. AT SAME TIME FOREIGN OWNERSHIP EXPECTED DECLINE FROM 60 TO 30 PERCENT.

4. FOR FIRST TIME GOM COMPILED DATA ON INCOME AND WEALTH IN 1970 SURVEY WHICH VERIFIES THAT MALAYS DOMINATE LOWER INCOME GROUPS. NEARLY 40 PERCENT OF MALAY HOUSEHOLDS EARNED LESS THAN M\$100 PER MONTH COMPARED TO LESS THAN 10 PERCENT CHINESE FAMILIES IN SAME CATEGORY. SURVEY CONFIRMS SOCIAL DIRECTIONS OF SMP AND NEP; THUS SEVERAL KEY PROGRAMS AIMED AT UPLIFTING INCOME OF RURAL MALAYS WILL BE STRENGTHENED FOR REMAINDER OF PLAN.

5. SECTORAL IMPLEMENTATION WAS SATISFACTORY, THOUGH HEALTH AND FAMILY PLANNING PERFORMANCE FELL NOTICEABLY SHORT OF TARGETS. SEVERAL AGRICULTURAL PROGRAMS WERE ALSO UNSATISFACTORY, BUT FEDERAL LAND DEVELOPMENT AGENCY (FELDA) EXCEEDED TARGET FOR CLEARED AND SETTLED LAND AND HAS BEEN GIVEN NEW HIGHER TARGET FOR REMAINDER OF SMP. BEST PERFORMANCE SECTOR WAS INDUSTRY AND COMMERCE, INCLUDING UNEXPECTED SUCCESS OF GOM SPONSORED UDA, PERNAS, AND STATE ECONOMIC DEVELOPMENT CORPORATIONS. EMPLOYMENT INCREASED SIGNIFICANTLY, WITH UNEMPLOYMENT CURRENTLY ABOUT 7.1 PERCENT, SLIGHTLY BELOW TARGET OF 7.3. EDUCATION, WEAK PERFORMER IN FIRST MALAYSIA PLAN, ACHIEVED TARGETS AND FUNDS RAISED 37 PERCENT FOR SECOND HALF SMP.

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6. COMMENT: SUCCESS OF 20 YEAR PERSPECTIVE AND SMP HINGE ON (A) CONTINUED HIGH DEGREE OF COMMITMENT OF CHINESE PRIVATE SECTOR TO ECONOMIC GROWTH; (B) CONTINUED STRONG WORLD MARKETS FOR PRIMARY COMMODITIES, NOTABLY TIN, RUBBER, PALM OIL, AND TIMBER; (C) GROWTH IN INDUSTRIAL EXPORTS PREDICATED ON EXPANDING INTERNATIONAL MARKETS AND FOREIGN INVESTMENT IN MALAYSIA; (D) CAPACITY OF MALAYS TO ACQUIRE SKILLS OF FINANCE, INDUSTRY, AND COMMERCE; AND (E) CONTINUED POLITICAL STABILITY AND COMMITMENT TO DEVELOPMENT OBJECTIVES. GROWTH RATES IN 1970-1990 PERIOD MUST BE SUFFICIENT ENABLE RACIAL RESTRUCTURING OF ECONOMY WITHOUT CREATING CONDITIONS THAT COULD NEGATE ECONOMIC GAINS. HIGH GROWTH RATES ARE SENSIBLE AIMS WHICH WITHIN SCOPE OF ACHIEVEMENT FOR MALAYSIA GIVEN ABOVE

FACTORS.

7. ON POLITICAL SIDE, THERE ARE CLEAR INDICATIONS THAT CERTAIN SEGMENTS OF CHINESE COMMUNITY ARE NOT ENTIRELY PLEASED WITH GOVERNMENT'S STRONG PUSH FOR RESTRUCTURING OF SOCIETY AND ITS ECONOMIC IMPLICATIONS. WHILE IT IS ACKNOWLEDGED THAT WEALTHY CHINESE BUSINESSMEN WILL BE MORE THAN HAPPY WITH PROSPECTS FOR OVERALL GROWTH AND INDUSTRIALIZATION, THERE IS NAGGING FEELING THAT CHINESE MIDDLE AND LOWER CLASSES WILL BE HURT IN PROCESS. LOWER CLASS INDIANS HAVE ALSO BEEN NEGLECTED IN THIS PROCESS. ACCORDING TO INFORMED POLITICAL SOURCES IN CHINESE COMMUNITY, IT IS FORESEEN THAT BENEFITS ACCRUING TO MALAYS FROM OVERALL ECONOMIC GROWTH AND STRUCTURING OF SOCIETY WILL COME AT EXPENSE OF CHINESE; IN THIS REGARD THEY DO NOT SEE REDUCTION OF FOREIGN-OWNED INTERESTS (NOW ESTIMATED AT ABOUT 60 PERCENT) BECAUSE OF STRONG GOM COMMITMENT TO FOREIGN INVESTMENT.

8. THOSE CONCERNED ABOUT FATE OF UNDERPRIVILEGED CHINESE HAVE CALLED FOR SPECIAL PROGRAMS IN EDUCATION AND BUSINESS TO ENABLE CHINESE GRASSROOTS SOCIETY TO MODERNIZE AT AN ACCEPTABLE RATE AND TO KEEP PACE WITH OVERALL GROWTH, AS WELL AS WITH MALAYS WHO HAVE BENEFITED FROM DIRECT INTERVENTIONIST PROGRAMS SUCH AS PERNAS, UDA, ETC. POLITICAL STRAINS IN THIS REGARD HAVE BEEN APPARENT FOR SOME TIME; COMBINED WITH WEAKNESS OF MALAYSIAN CHINESE ASSOCIATION (MCA), GOVERNMENT'S CHINESE PARTNER IN ALLIANCE PAERY, THERE IS DEFINATE FEELING OF FRUSTRATION AMONG CHINESE-EDUCATED CHINESE AND LOWER INCOME NON-MALAYS  
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IN GENERAL THAT GOVERNMENT IS SACRIFICING THEIR INTERESTS TO PLACATE THE MALAY COMMUNITY. GOM HAS NOT YET COME TO GRIPS WITH THESE FRUSTRATIONS AND POLITICAL CONSEQUENCES BUT, AS ELECTIONS APPROACH NEXT YEAR, GOVERNMENT MAY BE HURT SOMEWHAT IF IT FAILS TO DO SO. ON OTHER HAND, THERE IS PREVAILING BELIEF THAT GOM CAN MANAGE POLITICAL AND RACIAL FORCES AT WORK SUFFICIENTLY SO AS TO FORESTALL RACIAL OUTBREAKS AS IN 1969.

9. RAZAK GOVT, BASED AS IT IS ON PRAGMATISM AND MODERATION, NEVERTHELESS POSSESSES CAPABILITY TO MAKE NECESSARY ADJUSTMENTS IN SUBSTANCE AND STYLE TO BRING NON-MALAYS INTO FULLER SUPPORT OF NATIONAL DEVELOPMENT EFFORT. ON WHOLE, MALAYSIA'S PROSPECTS FOR CONTINUED GROWTH AND STABILITY ARE GOOD, THOUGH PREDICATED ON RACIAL CALM AND GENERALLY FAVORABLE INTERNATIONAL ECONOMIC CONDITIONS.

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